

FINAL BILL REPORT

HB 2562

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Synopsis as Enacted

Brief Description: Regulating flavored malt beverage.

Sponsors: By Representatives Wood, Conway, Fromhold and Condotta; by request of Liquor Control Board.

House Committee on Commerce & Labor

Senate Committee on Labor, Commerce, Research & Development

Background:

Many flavored malt beverages (FMBs) contain added flavoring derived from distilled spirits. According to the Liquor Control Board, FMBs have been on the market since 1996. According to beverage industry reports from 2001 to 2003, FMBs account for 2.5 percent to 2.7 percent of the national beer market.

Federal Standards. The former Alcohol, Tobacco and Firearms Bureau (ATFB), now the Alcohol and Tobacco Tax and Trade Bureau (TTB), is the federal agency that regulates alcohol manufacturers. Beer and spirits are subject to different taxes, and breweries are limited as to the types of products they may produce; specifically, breweries may generally produce only beer and malt beverage products.

In 1996 the ATFB issued a ruling that acknowledged that some FMBs contain significant amounts of distilled spirits and stated that these and similar beverages could continue to be produced and marketed as beer products. At the time, the agency stated that it would pursue additional regulation of FMBs in the future.

In January 2005 the TTB adopted a federal standard that limits the percentage of flavorings containing alcohol that a malt beverage may contain in order for the beverage to be considered a malt beverage, as opposed to a spirit. According to the TTB, this standard was adopted in part at the request of state authorities concerned about varying state standards.

The new TTB standard requires that FMBs fall into one of the following two categories in order to continue to be taxed and treated as a beer or brewed beverage product:

- malt beverages that contain no more than 6 percent alcohol by volume; these beverages may derive no more than 49 percent of their alcohol content from flavorings and other non-beverage ingredients; or
- malt beverages that contain more than 6 percent alcohol by volume: not more than 1.5 percent of the volume of the finished product may consist of alcohol derived from flavors and other non-beverage ingredients containing alcohol.

States are not required to follow the TTB standard and may take a different view concerning the classification and taxation of FMBs under state law.

State Law. "Spirits" are defined as any beverage which contains alcohol obtained by distillation. Under this definition, some FMBs are "spirits," not beer.

State law regulates and taxes beer and spirits differently:

Beer

- Beer may be sold for off-premises consumption at grocery stores, convenience stores, and beer and wine specialty shops.
- Beer brewers and wholesalers are subject to an excise tax, which currently equals \$8.08 per 31 gallon barrel, with a lower rate imposed on sales of less than 60,000 barrels. Beer is also subject to local sales tax.
- In fiscal year 2005, the state revenue from the beer excise tax was \$29,085,900.

Spirits

- Spirits may be sold for off-premises consumption only through liquor stores.
- All spirits sold are subject to a \$2.44 per liter tax plus a sales tax of 20.5 percent for sales to consumers or 13.7 percent for sales to restaurant licensees.
- In fiscal year 2005, the state revenue from the liquor liter tax was \$77,124,000. Revenue from the state liquor sales tax was \$74,102,000.

Summary:

State law is amended to incorporate definitions for FMBs similar to the standard adopted by the Alcohol and Tobacco Tax and Trade Bureau for FMBs.

The definition of "beer" includes a "flavored malt beverage" which meets one of the following criteria:

- contains no more than 6 percent alcohol by volume and derives no more than 49 percent of its alcohol content from distilled spirits contained in flavorings and other non-beverage materials; or
- contains more than 6 percent alcohol by volume and derives no more than 1.5 percent of the beverage's overall alcohol content from distilled spirits contained in flavorings and other non-beverage materials.

The definition of "spirits" expressly excludes FMBs.

Votes on Final Passage:

House	96	1
Senate	46	0

Effective: June 7, 2006